



# Tax Increment Finance

## Department of Local Government Finance

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October 29, 2009



# Tax Increment Finance

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# Definitions

- General Overview of Tax Increment Finance (TIF) Terms
  - **TIF:** Tax Increment Financing is a tool for development and redevelopment which captures increases in taxable assessed value in an allocation area and the revenue generated from that development (or Growth) is used to finance public improvements
  - **TIR:** Tax Increment Replacement imposes a property tax rate throughout the allocation area to generate tax to replace TIF revenues lost due to tax reform



# TIF Definitions

- **Base Assessed Value:** The aggregate assessed value of all allocation area property as of the base assessment date
- **Base Assessment Date:** The March 1 that immediately precedes the effective date of a declaratory resolution by the redevelopment commission that establishes or adds to an allocation area
- **Declaratory Resolution:** The legal action of a redevelopment commission which designates the geographic boundaries, purpose, limits of an allocation area



# TIF Definitions

- **Allocation Area:** The part of an area to be developed or redeveloped that is designated in the declaratory resolution for purposes of distribution and allocation of property taxes
- **Captured Assessment:** The assessed value of property in the allocation area used to calculate the tax increment (50 IAC 8-1-10)
- **Tax Increment:** Property taxes generated from the captured assessment (50 IAC 8-1-20)
- **Redevelopment Project Area:** “An area needing redevelopment” IC 36-7-1-3



# TIF Definitions

- **Economic Development Area:** An area indicated in the plan to promote gainful employment opportunities, attract major new businesses, retain or expand business enterprise in the area, or meet other purposes of Indiana Code in 36-7



# Reasons to Establish a TIF District

- TIF can induce capital investment in area that otherwise may not have occurred
- TIF provides a financing tool for redevelopment using increased tax proceeds (“increment”) generated by increased tax base in the area
- TIF allows units to use increased tax receipts created by the redevelopment to fund the capital improvements needed to attract the development



# Establishing a TIF District

- A city, town, or county will create a Redevelopment Commission
- The Commission prepares a redevelopment plan describing the economic development or redevelopment activities to be undertaken
- Commission passes a “Declaratory Resolution” which describes the “redevelopment project area” or “economic development area”
- The Plan needs approval of the Commission
- Municipal legislative body or County Executive must approve plan





# How TIF Works

- The allocation area is created by the Redevelopment Commission establishing a base assessment as of the previous March 1<sup>st</sup> assessment date
- “Base” or original assessed value cannot be captured
- Base assessed value is adjusted/neutralized for trending so there is no windfall of TIF revenues (before AV’s certified)
- Increases (or growth) in the assessed value over the base value become the “incremental” assessed value
- Property tax rates adopted and approved for the civil taxing units are applied to the total value in the allocation area



# How TIF Works

- The property taxes paid are distributed either to the Redevelopment Commission (increment) or the units (base)
- Redevelopment Commission must report to county auditors a notice of any excess assessed value within the TIF allocation area (pass-through assessed value) that may be allocated to taxing units.
- This notice is to be submitted by July 15<sup>th</sup> and prior to certification of 2010 assessed values to DLGF



# How TIF Works

- Auditor's are asked to submit a copy of the redevelopment commission's written notice to the Budget Division at the same time the Certificate of Net Assessed Valuation is filed with the Department
- The DLGF issued a memo on July 27, 2009 explaining the process and responsibility for commissions to report to the county auditor. This memo also describes how to determine the amount of excess assessed value as prescribed in IC 36-7-14-39(b)(3).



# Uses of TIF Proceeds

- Pay expenses incurred by the redevelopment commission for local public improvements that are in the allocation area or serving the allocation area.
- Designed to make the principal and interest payments of bonds and leases issued to finance the project
- Pay the principal of and interest on bonds issued by the unit to pay for local public improvements that are in allocation area.
- Reimbursing the “unit” for expenses made for local improvements.



# Tax Increment Replacement

- IC 6-1.1-21.2
- Amount of TIR is to be estimated by governing body
- Amount of TIR is greater of zero (0) or the net amount by which:
  - 1. laws enacted by general assembly; and
  - 2. actions taken by the DLGF;

After the establishment of the allocation area decreased revenues below the sum required to make all payments due in the next year from tax increment revenues



# Tax Increment Replacement

- A governing body may, after a public hearing, do the following:
  - 1. Impose a special assessment on real property in the allocation area
  - 2. Impose a tax on all taxable property in the district in which governing body exercises jurisdiction
  - 3. Reduce the base AV of property in the allocation area to an amount sufficient to increase TIF revenues to cover debt service requirements



# Tax Increment Replacement

- Per IC 6-1.1-21.2-12, Public notice of public hearing must be published by the governing body according to IC 5-3-1. Notice must be sent to the fiscal officer of each political subdivision located in the district
- TIR is now inside the maximum levy controls
- Governing body takes final action
- Objections or remonstrance must be filed within 10 days of action by governing board
- TIF and TIR are subject to circuit breaker credit calculations



# Tax Increment Replacement

- Special assessments:
  - Not subject to IC 6-1.1-20 (controlled project requirements before collecting tax)
  - Special assessment not considered for debt limit purposes
  - Levy limits do not apply





# Concerns of Issuing a TIF

- Advantages of TIF:
  - Redevelopment is self-funded
  - Issuance of TIF is less restrictive and does not require petition or referendum
  - Theoretically, TIF transfers the risk or redevelopment to bondholders from the taxpayers
- Disadvantages of TIF:
  - Assumes that all the increased taxable value in the allocation area is caused by redevelopment
  - Freezes real property tax base
  - TIF bonds usually carry higher interest costs (riskier)



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